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RUEHML/AMEMBASSY MANILA PRIORITY 1711  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0243  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY  
RUEAIIA/CIA WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY  
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TAGS: [EAID](#) [ECON](#) [PTER](#) [PGOV](#) [NP](#)  
SUBJECT: WORLD BANK REP TRIES TO ENGAGE MAOISTS

REF: 05 KATHMANDU 2723

Classified By: Ambassador James F. Moriarty. Reasons 1.4 (b/d).

SUMMARY

1. (C) On September 15, World Bank (WB) Country Representative Ken Ohashi told Emboff that he had requested a meeting with the Maoists' 20-member economic advisory committee, but was rebutted. Frustrated with the Government of Nepal (GON), Ohashi suggested the Maoists should be allowed to run a few ministries to see if they could perform better than the GON. While Ohashi said a Maoist takeover was "probable," when pushed, he acknowledged that a Maoist takeover would be bad for Nepal. He explained that World Bank President Wolfowitz planned to deliver a tough message to Finance Minister Mahat during a scheduled September 17 meeting in Singapore. The World Bank rep mentioned that the WB was close to approving USD 25 million in funding over three years for Nepal's Poverty Alleviation Fund. He added that the WB continued to withhold the USD 100 million Poverty Reduction Strategy Credit (PRSC II) until the GON dealt with loan defaulters and three other key issues (reftel).

MAOISTS HAVE ECONOMIC ADVISORY COMMITTEE; BUT SHORT ON POLICY

2. (C) Long-time World Bank (WB) Country Representative Ken Ohashi told Emboff on September 15 that he had recently met with the top Maoist leadership and had learned that the Maoists have a 20-member economic advisory committee. He noted that the chair of the committee was a university professor and that it included an employee of Nepal Rastra Bank (Nepal's Central Bank). Ohashi said he had requested a meeting with the advisory committee in the hopes of influencing their economic policies, but was turned down. He was told committee members were wary of being identified with the Maoists at this point. He was not impressed by Prachanda's and Bhattarai's command of economics during his recent meetings with them. Ohashi told Emboff that when he had asked the "top two leaders" which industries they would like to nationalize, they had no answer. He surmised they

had not thought the matter through.

#### WORKING WITH MAOISTS NOT SO BAD

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13. (C) Noting that the Health Ministry was not functioning well, Ohashi suggested it might be good to give the Maoists control of a few ministries to see if they could get things done better than the GON. (Note: The Health Ministry is run by Deputy Prime Minister Amik Sherchan, who is a member of the far-left People's Front Nepal (PFN). USAID noted that Sherchan had already appointed many Maoists to the Health Ministry and that Maoists had been observing hospital operations at Teaching Hospital in Kathmandu a month ago. End Note) The WB representative said that a Maoist takeover was "probable" and that there was a growing group of people in Kathmandu who thought the Maoists would take over and therefore it was better to try and work with them. Ohashi explained that European donors worried that too much support for the GON might upset the Maoists and damage the peace process. When pushed, however, he acknowledged that a Maoist takeover would not be good for Nepal.

#### WOLFOWITZ TO DELIVER TOUGH MESSAGE TO FINANCE MINISTER

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14. (C) Ohashi mentioned that WB President Paul Wolfowitz planned to meet Finance Minister Ram Sharan Mahat on September 17 in Singapore on the sidelines of the WB and International Monetary Fund's annual meeting. He stressed that Wolfowitz would give Mahat a "tough message" about the Government of Nepal's (GON) need to take action. Ohashi noted that the GON had been unable to pass a procurement act, which he said could seem like a weak GON indicator to Wolfowitz. Ohashi expressed frustration and said the GON was "myopic" and unable to get anything done. He explained that the WB had withheld the USD 100 million PRSC II until the GON took tough action against loan defaulters and resolved three other outstanding issues. (reftel). (The PRSC II aims to help the GON prioritize future policy reform areas and provide funds for operations in the education, financial and health sectors.)

#### INCREASED FUNDING FOR POVERTY ALLEVIATION FUND LIKELY

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15. (C) Ohashi mentioned that a proposal to provide USD 25 million over three years to the poverty alleviation fund for Nepal would be sent to the Board soon and could be approved as soon as October. The poverty alleviation fund aims to improve access to income-generation activities and community infrastructure to marginalized groups of society. He noted this was a significant increase above the 15 million funded over the past three years. Ohashi enthusiastically talked about a USD 60 million project for higher education to develop academic programs to attract fee paying students. He noted the success of Kathmandu Engineering college, which had been given funding ten years ago to develop its academic programs and now had students seeking admission from India. Ohashi said the WB felt that poverty alleviation was the more immediate need, but that the higher education program could become a reality in the coming year.

#### COMMENT

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16. (C) The DCM had previously told Ohashi that his all too public meetings with top-level Maoists were perhaps ill-advised and were helping to create an aura of legitimacy for an organization cynically engaged in extortion, kidnapping and murder. (The WB representative had been seen eating lunch with Prachanda on at least two occasions at one of Kathmandu's five-star hotels.) Ohashi, who has been the WB Country Director for five years, is clearly frustrated with the GON and some of his comments could have been made in this vein. However, during the majority of the conversation he seemed almost enthusiastic about the prospect of a Maoist takeover and appeared to think it wise to try and influence

the Maoists now before they come into power. That others in the international community might share Ohashi's sentiments is a worrying trend. While we believe a Maoist takeover is a possibility, post strongly believes that now is not the time for the international community to write off the GON -- a move that would make a Maoist victory much more likely.

MORIARTY